

CDM-EB71-AA-A02

Concept note on process for review of CDM modalities and procedures

Version 01.0



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1. Procedural background

1. In accordance with the Marrakesh Accords¹, the first review of the modalities and procedures for a clean development mechanism (CDM modalities and procedures) by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) is to be carried out no later than one year after the end of the first commitment period.
2. In 2012, at its eighth session, the CMP set out the programme of work for conducting the first review of the modalities and procedures for the CDM, with a view to adopting a decision on this matter at its ninth session.²
3. In this regard, the CMP requested the Subsidiary Body for Implementation (SBI) to prepare recommendations on possible changes to the CDM modalities and procedures, taking into account:
 - (a) Submissions from Parties and admitted observer organizations;
 - (b) Recommendations from the Executive Board of the CDM (the Board), to be submitted to the thirty-eighth session of the SBI;
 - (c) Outputs from a workshop which is to be organized by the secretariat prior to the thirty-eighth session of the SBI.
4. The CMP also requested the Board, in submitting its recommendations, to draw upon the experience gained by the Board, the secretariat and stakeholders in implementing the CDM.

2. Purpose

5. This concept note outlines the proposed work and time-line for delivering the Board's recommendations to the SBI on possible changes to the CDM modalities and procedures.

3. Proposed work and time-line

6. To meet the CMP request that the Board deliver recommendations to the SBI at its thirty-eighth session, it is anticipated that the Board will, at its seventy-first meeting, discuss possible changes to the CDM modalities and procedures and, at its seventy-second meeting, agree its recommendations.
7. The secretariat has prepared a non-exhaustive and indicative list of questions, as set out in appendix 1, which the Board could use to facilitate its discussion. The list is divided into two parts:

¹ Decision 3/CMP.1, paragraph 4; Decision 5/CMP.1, paragraph 4. In decision 6/CMP.1, paragraph 3, the Board is invited to review the simplified modalities and procedures for small-scale afforestation and reforestation project activities and, if necessary, make appropriate recommendations to the CMP.

² See paragraphs 9 to 17 of decision 5/CMP.8, Guidance relating to the clean development mechanism; and appendix 3 to this concept note, which sets out the relevant decision paragraphs in full.

- (a) Part I includes questions relating to the strategic context in which the CDM operates;
 - (b) Part II includes questions relating to operational issues, focusing on the improvement of specific aspects of the CDM.
8. The Board may wish to discuss issues not included on the list or to disregard any question on the list. The list is merely intended to stimulate the discussion of the Board.
9. Following its discussion, the Board's draft recommendations will be prepared, with support from the secretariat as required and directed, for consideration and agreement by the Board at its seventy-second meeting.
10. A call for public inputs on possible changes to the CDM modalities and procedures was launched on 18 December 2012 following the eighth session of the CMP. As the public call closed only on 23 January 2013, the secretariat will present the inputs to the Board directly at its meeting.
11. In accordance with the request from the CMP, the secretariat is currently preparing a report documenting its experience in the implementation of the CDM, for submission to the Board for its consideration at its seventy-second meeting.

Table 1. Time-line of activities (see also [appendix 2](#))

Board recommendations (supported by secretariat)	Time-line
Call for public inputs and compilation of those inputs by the secretariat for EB 71 (per paragraph 12 of decision 5/CMP.8)	18 December 2012–23 January 2013
Initial discussion by the Board at EB 71, including defining the scope/form of the Board recommendations	30 January–1 February 2013
Preparation of draft recommendations to the SBI based on direction and guidance from the Board at EB71	2–18 February 2013
Agreement by the Board of recommendations to the SBI at EB 72	4–8 March 2013

4. Recommendations to the Board

12. The secretariat recommends that the Board:
 - (a) Identify areas and options for possible changes to the CDM modalities and procedures;
 - (b) Clarify the form to be taken for its recommendations to the SBI;
 - (c) Request the secretariat, based on guidance provided by the Board, to prepare draft recommendations to the SBI on possible changes to the CDM modalities and procedures, for consideration at the next meeting alongside the report by the secretariat on its experience in the implementation of the CDM.

Appendix 1. Possible questions for discussion

The following questions are presented as a non-exhaustive and indicative list which the Board may wish to use to facilitate its discussion on possible changes to the CDM modalities and procedures at its seventy-first meeting.

1. Strategic context

The questions in this section are aimed at eliciting a discussion regarding strategic issues – particularly in light of external forces, such as the developments within and outside the UNFCCC process, and a decline in demand for certified emission reductions (CERs) – which may inform the development by the Board of its recommendations for the modalities and procedures.

1.1. Position of the CDM in the future

1. What should be the role of the CDM in the future? What might be some the characteristics of this future CDM, regarding for example its size, the purpose for which it is used, the Parties and activities that are targeted by the mechanism, its use as a standalone mechanism or in an integrated manner with other measures, appropriate levels of standardization, etc?
2. How should the CDM be changed so that it fits within the evolving international climate system, which is characterized by, among other things, the second commitment period of the Kyoto Protocol, the development under the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP) of a protocol, another legal instrument or an agreed outcome with legal force under the Convention applicable to all Parties, and policies and measures being implemented outside the UNFCCC process?
3. What should be the relationship between the CDM and other means of collaboration between the Parties that are currently being elaborated, including the new market-based mechanism (NMM), the framework for various approaches (FVA), nationally appropriate mitigation actions (NAMAs), and the Green Climate Fund? How could the CDM contribute to their elaboration as effective tools for promoting mitigation and sustainable development? How could the CDM rules prevent double counting and allow for blending of finances?
4. Could there be value in linking or merging the institutional arrangements for the CDM with those of other market-based mechanisms under the Convention and the Kyoto Protocol? Could there be a single body to review appeals from decisions of all the bodies governing market-based mechanisms under the Convention and the Kyoto Protocol?
5. Should the sustainable development aspects of CDM project activities and programmes of activities (PoAs) be strengthened? Is there a need for greater support for DNAs on such issues?
6. Are the current requirements for demonstrating additionality appropriate for the future CDM?

7. Should non-Annex I Parties that are participating in the CDM be allowed to open their own national registry under the Kyoto Protocol registry rules?
8. Should the role of the CDM registry be expanded or developed into a single registry for all mitigation units under the Kyoto Protocol/Convention?

1.2. Review of CDM modalities and procedures

9. What elements of the CDM have worked well? What elements have not worked well?
10. Are there ways to strengthen the CDM to respond to the decisions of Parties since the adoption of the Marrakesh Accords?
11. Are there any areas of the CDM modalities and procedures that need to be updated to reflect current practices and rules (assuming that the CDM proceeds in its current form)?

2. Specific operational issues

The headings and questions in this section are aimed at eliciting discussion about particular operational aspects of the CDM for which changes to the existing CDM modalities and procedures may improve or enable expansion of the operation of the CDM. The questions or issues posed under each general heading elaborate, by way of example, a specific idea for change.

2.1. Content of revised CDM modalities and procedures

12. Level of detail that should be in the revised CDM modalities and procedures
 - (a) Should the revised CDM modalities and procedures be drafted at 'principles' level to avoid being too prescriptive, while leaving the operational aspects to be elaborated in CDM procedures etc. and then adopted by the Board?
13. Scope of the revised CDM modalities and procedures
 - (a) Should the revised CDM modalities and procedures consolidate all modalities and procedures and processes from all subsequent CMP decisions into one document for all project activities (i.e. to include modalities and procedures for small-scale, afforestation and reforestation (A/R), and carbon capture and storage)?
 - (b) Should rules for PoAs be de-coupled from project activity requirements and "principles" for them be clearly elaborated so that there is greater clarity on how PoAs and component project activities (CPAs) work?

2.2. Governance

14. Support structure of the CDM
 - (a) Should the roles of the Board, panels and working groups, designated operational entities (DOEs) and the secretariat in the CDM process be redefined/refined, and if so, how?
 - (b) Do designated national authorities (DNAs) play an optimal role in the CDM infrastructure or could their role be enhanced?

- (c) Has the Board achieved the executive and supervisory role mandated by the CMP to the optimal level, or could other functions be transferred to other parts of the CDM support structure?

15. Membership of the Board

- (a) What changes are needed, if any, to ensure the effectiveness and impartiality of the Board's decision-making (e.g. clarifying competence requirements, changing voting rules, clarifying the rule of acting in a personal capacity)?

16. Due process and fairness

- (a) What steps in current processes can be redesigned to enhance due process and fairness in the CDM?

2.3. Accreditation

17. Role of DOEs in the CDM

- (a) Should DOEs continue to be selected and contracted by project participants to conduct validations/verifications?

18. Role of the CMP/Board in relation to DOEs

- (a) Are the CMP, Board and Board panels the optimal approach to accredit and measure performance of DOEs or are there alternative approaches, such as using accreditation bodies that operate internationally?
- (b) If the CMP, Board and Board panels represent the optimal approach for accrediting and measuring DOE performance, could the roles and functions between the bodies be adjusted to enhance the effectiveness of the governance structure?

19. CDM "principles" for DOEs

- (a) What needs to be defined in the revised CDM modalities and procedures, and what could be elaborated by the Board in the accreditation standard (i.e. at a level below CMP level)? Could the accreditation Appendix be removed and only key attributes included in the main text?
- (b) Is impartiality a "principle" and how broad is it for DOEs? For example, should subsidiary parts of multinational companies that are investors in CDM project activities or PoAs be capable of being DOEs?

2.4. Project cycle

20. "Principles" of the project cycle, methodology development/revision

- (a) Should the current thresholds that define micro-scale and small-scale projects be reviewed? Should there be a distinction based on renewable energy, energy efficiency and other activities as it is now or should there be a uniform threshold in terms of annual emission reductions?
- (b) Do the requirements in the CDM modalities and procedures relating to liability for significant deficiencies in validation, verification and certification reports remain

appropriate? Should the way that liability is to be attributed or the extent of liability under the CDM modalities and procedures be revised?

- (c) Is there sufficient clarity in relation to letters of approvals (LoAs)? Should LoAs be required from Annex I Parties?

21. “Principles” of baseline methodologies/standards:

- (a) Does the requirement to determine a baseline on a project-specific basis remain sufficient or should other basis be considered, for example, sectoral?
- (b) Do the current approaches for selecting a baseline (existing, economically attractive course of actions, and average emission among the top 20 per cent of their category) remain appropriate or are there other, more appropriate approaches?
- (c) Should the requirements for renewal of crediting period be reviewed, for example, where investment is not involved, should the baseline or baseline scenario be assessed?
- (d) Should the length of crediting periods be shorter, either to reduce them below the life of the project activity, or only for methodologies in sectors where the baseline is rapidly changing?

22. “Principles” for preparing and monitoring project activities/PoAs

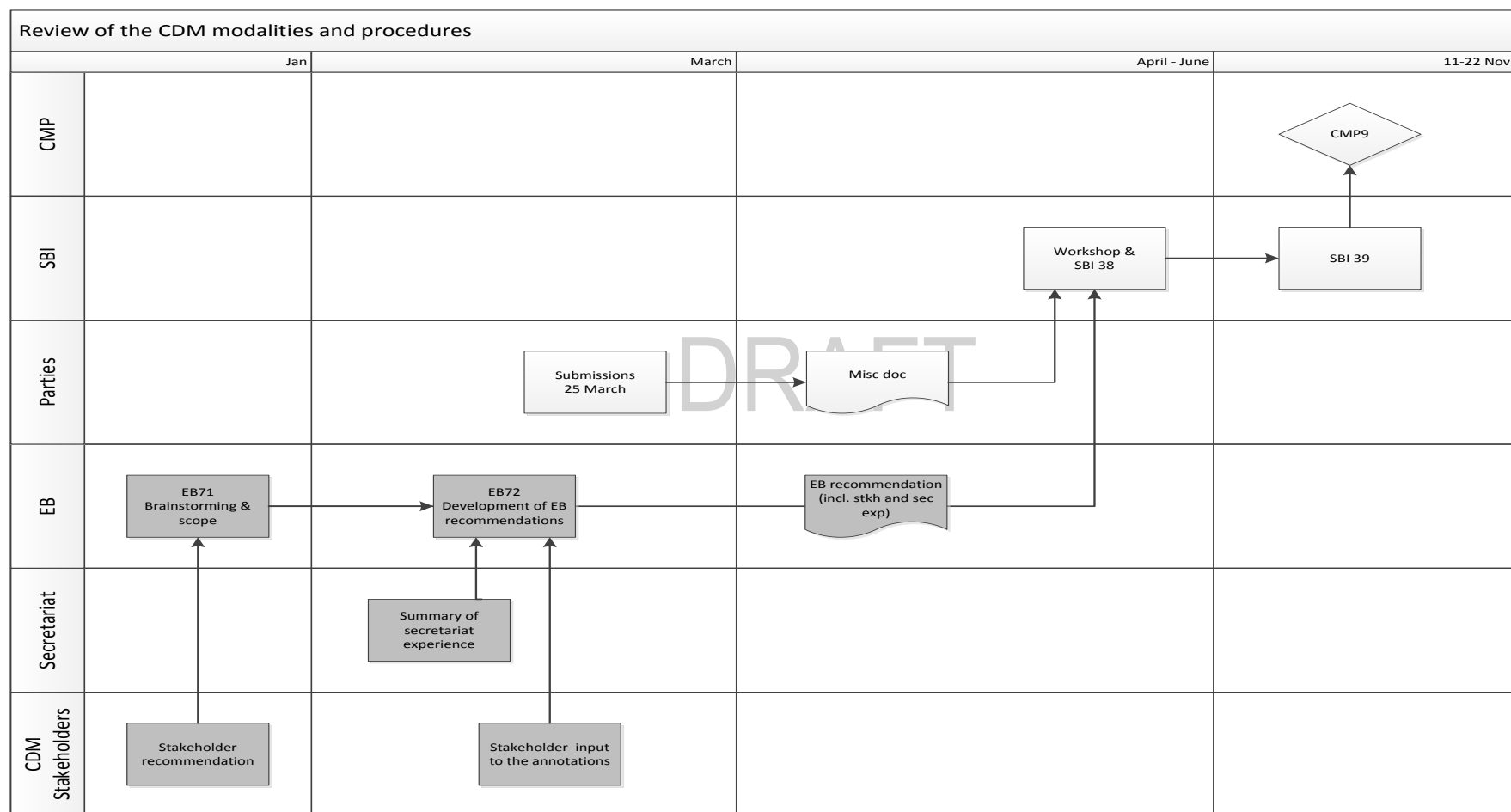
- (a) Do the current requirements in the CDM relating to official development assistance (ODA) remain appropriate?
- (b) Could changes to monitoring rules strengthen sustainable development benefits?
- (c) Do the two options in relation to the lengths of crediting period remain appropriate? Do crediting period choices work equally well for single project activities and PoAs, or should they differ across these two to reflect the differences in the two?
- (d) Could the crediting to A/R project activities and PoAs be improved, for example, should temporary CERs (tCERs) and long-term CERs (ICERs) be replaced with other ways of crediting (e.g. a buffer or reserve approach)?

23. “Principles” for validation and verification

- (a) Requirements on additionality and associated validation process:
 - (i) How could the demonstration of additionality be simplified without compromising environmental integrity?
 - (ii) Is there still a role or need for prior consideration demonstration, project-by-project basis investment analysis, first-of-its-kind, common practice and/or E+/E- policy considerations?
 - (iii) Could/should the modalities and procedures include the principle of a lighter process for project activities with automatic additionality through positive/negative lists or the use of specific technologies in specific regions?

- (b) Could the cost effectiveness of the validation process be enhanced by further differentiation by project type; that is, the scale of the project?

Appendix 2. Process for the review of the CDM modalities and procedures in 2013



Appendix 3. Excerpt from draft decision 5/CMP.8, Guidance relating to the clean development mechanism

II. Review of the modalities and procedures for the clean development mechanism

9. *Reiterates* that, pursuant to decision 3/CMP.1, the first review of the modalities and procedures for the clean development mechanism, as contained in the annex to decision 3/CMP.1, shall be carried out by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its ninth session;
10. *Invites* Parties and admitted observer organizations to submit to the secretariat, by 25 March 2013, their views on possible changes to the modalities and procedures for the clean development mechanism;
11. *Requests* the secretariat to compile the submissions referred to in paragraph 10 above into a miscellaneous document, for consideration by the Subsidiary Body for Implementation at its thirty-eighth session;
12. *Also requests* the Executive Board to submit recommendations on possible changes to the modalities and procedures for the clean development mechanism, drawing upon the experience gained by the Executive Board, the secretariat and stakeholders in the implementation of the clean development mechanism, for consideration by the Subsidiary Body for Implementation at its thirty-eighth session;
13. *Further requests* the secretariat to organize, prior to the thirty-eighth session of the Subsidiary Body for Implementation, a workshop with the aim of facilitating the progress of the review of the modalities and procedures for the clean development mechanism, while ensuring broad participation of developing country Parties, subject to availability of resources;
14. *Requests* the Subsidiary Body for Implementation, at its thirty-ninth session, taking into account the work referred to in paragraphs 10–13 above, to prepare recommendations on possible changes to the modalities and procedures for the clean development mechanism, for consideration by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its ninth session, with a view to adopting a decision on this matter at that session;
15. *Takes note* of the estimated budgetary implications of the workshop referred to in paragraph 13 above;
16. *Invites* Parties to make voluntary contributions to the Trust Fund for Supplementary Activities for the organization of the workshop referred to in paragraph 13 above;
17. *Requests* that the actions of the secretariat called for in paragraph 13 above be undertaken subject to the availability of financial resources;

III. Governance

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24. *Notes that Parties may wish to address the issue of significant deficiencies in validation, verification and certification reports as part of the review of the modalities and procedures referred to in paragraph 9 above;*
25. *Also notes that Parties may wish to address the issue of a Party withdrawing or suspending a letter of approval for a project activity or programme of activities as part of the review of the modalities and procedures referred to in paragraph 9 above;*

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IV. Baseline and monitoring methodologies and additionality

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38. *Notes that Parties may wish to address the length of crediting periods as part of the review of the modalities and procedures referred to in paragraph 9 above;*

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Document information

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